

Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 FEA-01 /094 R

DRAFTED BY ARA/AND/E - MR. ALLITTO:LEE

APPROVED BY ARA/AND/E - MR. ALLITTO

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TO AMEMBASSY QUITO IMMEDIATE

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L STATE 216027

E.O. 11652: GDS

TAGS: ENRG, PFOR, EC

SUBJECT: GULF OIL COMPANY THREATENS TO PULL OUT OF ECUADOR

REF: QUITO 6166

1. ON AUGUST 31 NESTOR ORTIZ (GULF OIL DIRECTOR FOR INTERNATIONAL AFFAIRS) CALLED ON COUNTRY OFFICER ALLITTO TO INFORM THE DEPARTMENT OF GULF'S NEXT STEP, WHICH IS TO DELIVER ON AUGUST 31 TO ALL THREE MEMBERS OF THE GOVERNMENT OF ECUADOR'S (GOE) SUPREME COUNCIL A LETTER SIGNED BY T.A. O'BRIEN, THE ECUADOREAN GULF OIL COMPANY MANAGER, THE GIST OF WHICH IS AS FOLLOWS:

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A. IT GIVES A BRIEF INTRODUCTORY HISTORY OF GULF'S INVOLVEMENT IN THE DISCOVERY AND DEVELOPMENT OF ECUADOR'S PETROLEUM RESOURCES. IT NOTES THAT IN PARTNERSHIP WITH TEXACO, THEY HAVE JOINTLY DRILLED 200 WELLS, DISCOVERING 15 FIELDS HOLDING 3 BILLION BARRELS OF PETROLEUM RESERVES, AND HAVE INVESTED \$350 MILLION, ETC.

B. IT REFERS TO THE PROBLEMS THAT GULF'S SUBSIDIARY HAS FACED AND CONTINUES TO SUFFER, AND IT FINDS THAT GULF CAN NO LONGER CONTINUE TO OPERATE UNDER THE ADMINISTRATIVE, FINANCIAL, AND JURIDICAL DICTATES IMPOSED UPON

IT FROM VARIOUS OFFICIAL SOURCES, THE RESULT OF WHICH HAS BEEN THAT THE COMPANY'S OPERATIONS IN ECUADOR ARE NO LONGER ECONOMIC AND THERE WOULD APPEAR TO BE NO REASON TO BELIEVE THAT THE GOVERNMENT OF ECUADOR INTENDS TO TAKE THE ACTION NECESSARY TO PROMPT GULF TO WANT TO CONTINUE TO REMAIN IN ECUADOR AS AN OPERATING COMPANY.

C. THEREFORE, IN ORDER TO COMMENCE AN ORDERLY AND SYSTEMATIC WITHDRAWAL, THE ECUADOREAN GULF OIL COMPANY PROPOSES THAT NEGOTIATIONS BEGIN AS SOON AS POSSIBLE WITH THE GOVERNMENT OF ECUADOR, HOPEFULLY ARRIVING AT AN EARLY CONCLUSION, IN ORDER TO TRANSFER OR CEDE GULF'S PARTICIPATION IN THE TRANS-ANDEAN PIPELINE AND OTHER PRODUCTION FACILITIES COVERED BY THE CONTRACT OF AUGUST 16, 1973, AND AT A PRICE AND UNDER CONDITIONS WHICH WILL BE IN THE BEST INTEREST OF BOTH PARTIES.

D. THAT DURING THE PROCESS OF NEGOTIATION, THE ECUADOREAN GULF OIL COMPANY WILL CONTINUE TO DO EVERYTHING POSSIBLE TO SEE TO IT THAT ECUADOR'S PETROLEUM OPERATIONS, TO THE EXTENT THAT GULF IS INVOLVED, WILL BE CARRIED OUT IN A NORMAL AND EFFICIENT MANNER.

2. IN REPLIES TO QUESTIONS, ORTIZ SAID THAT THE DECISION TO TAKE THIS STEP HAD BEEN TAKEN BY ALL GULF PRINCIPALS AT THE HIGHEST LEVELS, THAT THE DECISION IS CONSISTENT WITH GULF'S POLICY IN THE PAST, THAT THE DECISION WAS COORDINATED WITH TEXACO (CHAIRMAN TO CHAIRMAN),
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THAT TEXACO HAS NO PROBLEM WITH THE DECISION, THAT NO OVERDUE DEPOSITS WILL BE MADE, AND THAT THE TANKER "RUTH" SUIT IN LOS ANGELES WILL BE KEPT PENDING BY GULF.

3. IN OTHER REPLIES, ORTIZ SAID THAT THE LETTER IS BEING DELIVERED NOW FOR TWO REASONS:

A. IN ORDER TO BEAT MINISTER OF NATURAL RESOURCES VARGAS

TO THE PUNCH, BECAUSE GULF EXPECTS VARGAS TO GIVE GULF A LETTER SOMETIME THIS WEEK STATING THAT GULF HAS BROKEN ECUADOREAN LAW BY WITHHOLDING DEPOSITS ON OIL SHIPMENTS FOR MORE THAN 120 DAYS;

B. BECAUSE THERE HAS BEEN NO PROGRESS IN THE NEGOTIATIONS WITH THE GOE REGARDING REVISION OF DECREE 285.

4. WHEN ALLITTO BRIEFED ORTIZ ON THE GOOD NEWS OF PARAGRAPH TWO OF REFTTEL, ORTIZ DISMISSED THE NEWS WITH A SHRUG, SAID THAT DECREE 285 IS MUCH MORE IMPORTANT, THAT'S WHERE THE PROBLEM IS, AND THAT'S ONE REASON FOR THE LETTER.

5. ORTIZ SAID GULF HAD HEARD RUMORS IN ECUADOR THAT VARGAS WAS TO BE REPLACED THIS WEEK, AND ASKED IF THE DEPARTMENT HAD HEARD THE SAME RUMORS. ALLITTO REPLIED THAT HE HAD BEEN READING THOSE RUMORS FOR A MONTH, DID NOT KNOW WHETHER TO BELIEVE THEM OR NOT, BUT WONDERED IF GULF WOULD BE WILLING TO STAY IN ECUADOR IF VARGAS WERE REPLACED BY SOMEONE WHO WAS MORE REASONABLE. ORTIZ REPLIED THAT GULF WOULD BE WILLING TO LISTEN TO ANYONE (MEANING VARGAS' REPLACEMENT OR THE SUPREME COUNCIL) WHO HAD SOMETHING TO SAY (MEANING SOMETHING NEW), AND WOULD BE WILLING TO NEGOTIATE TO STAY IN OR TO GET OUT OF ECUADOR, AND WAS READY NOW FOR EITHER EVENTUALITY. ORTIZ ADDED, HOWEVER, THAT GULF WANTED IT UNDERSTOOD BY ALL CONCERNED THAT GULF IS NOT BLUFFING, IS QUITE PREPARED TO GET OUT OF ECUADOR, AND IS MAKING PLANS TO DO SO DESPITE THE FACT THAT IT HAS NOT RECOVERED ITS ORIGINAL INVESTMENT NOR WILL THE APPROXIMATELY \$70 MILLION THAT IT MIGHT END UP WITHHOLDING FROM THE GOE EQUAL GULF'S ORIGINAL INVESTMENT.

6. COMMENT: IT APPEARS THAT GULF'S PRINCIPAL NEGOTIATOR, CONFIDENTIAL

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T.D. LUMPKIN, HAS SOLD HIS COLLEAGUES AND HIS BOSS ON HIS ANALYSIS OF THIS POKER GAME, WHICH IS THAT THE GOE WAS BLUFFING WHEN IT THREATENED CANCELLATION OF THE GULF CONCESSION TWO WEEKS AGO, AND THAT GULF SHOULD CALL THAT BLUFF AND RAISE. WITH THE DELIVERY OF THE LETTER, GULF HAS. NOW WE WILL SEE IF LUMPKIN'S ANALYSIS IS CORRECT. ROBINSON

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ORIGIN ARA-10

INFO OCT-01 ISO-00 /011 R

DRAFTED BY: ARA/ECP:JO'MAHONEY

APPROVED BY: ARA/ECP:JO'MAHONY

----- 092770

P 022105Z SEP 76

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA PRIORITY

C O N F I D E N T I A L STATE 216027

FOR DEPUTY ASSISTANT SECRETARY JOSEPH GRUNWALD

FOLLOWING REPEAT SECSTATE 216027 SENT ACTION QUITO INFO
GUAYAGUIL 31 AUG 76

QUOTE C O N F I D E N T I A L STATE 216027

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UNQUOTE KISSINGER

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Current Classification: UNCLASSIFIED
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Copy: SINGLE
Draft Date: 31 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
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Disposition Authority: greeneet
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
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Disposition History: n/a
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Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

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TAGS: ENRG, PFOR, EC, GULF OIL CO
To: QUITO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006